

Outsourcing on a whole new level – terminal ODM players

CANNES – February 20, 2003 – Is it a Sony Ericsson? Is it a Motorola? No, it might actually be a GVC or a BenQ.... With the outsourcing of development as well as manufacturing to Original Design Manufacturing (ODM) companies, the old value chain of the mobile terminal market goes up in smoke. Northstream, leading wireless advisor, predicts that ODM products grow rapidly and account for up to 40 percent of the mobile terminals' market by 2005. Here lies new opportunities but also challenges for both operators and vendors.

Development and manufacturing of mobile phones is not what it used to be.

– Are you the proud owner of a Motorola T191 or C300, or perhaps of a Sony Ericsson T200 or R600? Then you probably think that Motorola and Sony Ericsson are the companies that have developed these phones, says Anders Lindqvist, senior advisor at Northstream. – In the case of Motorola, Taiwanese-based BenQ has developed and produced both the T191 and the C300. And for Sony Ericsson T200 and R600, GVC – the mobile arm of Lite-On Technology – is the Taiwanese ODM company behind these terminals.

These are just examples of mobile phones that increasingly are developed by ODM companies. ODM is a phenomenon that rapidly has become a powerful ingredient in the recipe for how to make a mobile phone. Established manufacturers rely on previously unknown sub-suppliers to minimise risks and efforts in the process of expanding and maintaining their product portfolios. Northstream predicts the ODM share of the total market to grow from 7-8 percent 2002 to beyond 40 percent in 2005.

Many mobile terminal vendors, with Motorola and Sony Ericsson as the frontrunners, have started to purchase phones from ODMs in order to complete their product portfolio, reduce internal R&D costs and introduce new concepts to try the market with minimal financial risk. Another example is Microsoft who has started to use ODMs as an alternative means to introduce Microsoft-powered handsets to the market.

Taiwan is by far the most dominating country with regards to the number of mobile terminal ODM companies as well as handset shipments. Korea holds second place, but other regions have started to challenge Asian domination. One example is Finland-based Microcell, the ODM behind Sony Ericsson's T66, a good example of a new terminal ODM player.

- The rise of the ODM force and new business models will completely change the value chain for mobile terminals, says Anders Lindqvist. – Handset vendors will find new means of developing their portfolio, while operators will see new possibilities to source customized handsets, not necessarily from traditional well known vendors.

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About Northstream:

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